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FOR RETIREMENT PLAN SPONSORS • PUBLISHED BY T. ROWE PRICE
APRIL '10

4 KEYS TO A HEALTHY PLAN

DIAGNOSIS AND SOLUTIONS FOR SUCCESS

With the market fluctuations of 2009 still fresh, T. Rowe Price Retirement Plan Services experts feel that there is no better time to examine your retirement plan. Knowing the signs of a healthy plan can go a long way toward helping plan sponsors and their participants meet their goals.

"When you think about the past couple of years and how volatile the markets have been, it really draws attention to the topic of retirement readiness," explains Robert Sage, relationship manager at T. Rowe Price Retirement Plan Services, Inc. "A lot of plan sponsors have been starting to reassess whether their plans are accomplishing their goals."

In response to plan sponsor concerns, Sage and Francisco Negron, director of relationship management at T. Rowe Price Retirement Plan Services, Inc., explored some of the key criteria that make up a healthy plan. Going back to the basics, they say, is the best way to assess if your plan is healthy or if it needs targeted treatment in certain areas.

QUESTIONS EVERY PLAN SPONSOR SHOULD ASK THEMSELVES

1 IS MY PLAN WELL PERCEIVED?

Sage and Negron agree that a healthy plan is valued by employees. They note, however, that employee perception can be challenging to measure. Traditional benchmarking efforts include conducting a competitive benefits comparison between your plan and those of other companies in similar industries and geographic locations. Plan usage also can be helpful, as can employee feedback.

Once these areas have been examined, the question then becomes one of how a plan sponsor can influence employee perception.

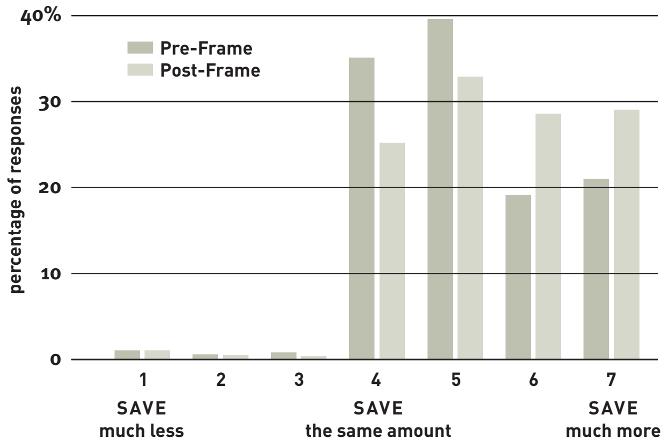
"It's really about how you frame the benefit so that employees can appreciate it," says Sage. "There are a variety of techniques for doing this."

One technique is to present information in a way that resonates with employees. Consider the fact that many participants simply contribute enough to receive the company match benefit. While this strategy is good, it does not necessarily mean that the participants are meeting the recommended 15% to 20% contribution level.

A recent study conducted by T. Rowe Price showed that when the same deferral amount was reframed as an estimated account balance at retirement or estimated monthly replacement income, a large number of participants realized that they should be saving much more.

"The key is to then take that to the next step," says Sage. "If someone is interested in saving more, they will appreciate the plan benefit more as it will help them reach their goal."

T. ROWE PRICE STUDY:
HOW REFRAMING INCREASES INTEREST IN RETIREMENT SAVING



One key to optimizing employee perception is offering tools and services for both the engaged participant and the delegator. For the engaged participants, this means offering access to additional tools and services to help them make investment decisions. For the delegators, however, this means offering the tools that make participating in the plan easy.

PLAN FITNESS TIP:

If you are concerned about employee perception, examine your plan and consider reframing your participant communications or reviewing the tools and services offered.

2 IS MY PLAN PRODUCING APPROPRIATE REPLACEMENT INCOME?

Another component to a healthy plan is to design it to provide the replacement income participants will need in retirement. How your plan meets this goal depends on your organization's philosophical view as well as additional benefits that may be offered, such as a defined benefit pension plan.

Simply going by the numbers, Sage feels that the most effective way to improve a participant's ability to generate an appropriate level of replacement income is through automatic plan design. With this approach, employees are enrolled in the plan automatically unless they indicate a desire to opt out. Then, their contributions are defaulted into an investment such as an age-appropriate, target-date fund (unless they choose another investment from the plan's lineup) and their savings rates are increased by 1% to 2% each year until it reaches a predetermined maximum percentage.

Currently, over 50% of plan participants whose plans are recordkept at T. Rowe Price were automatically enrolled in their plans[1]. T. Rowe Price has found that more than 90% of those who were automatically enrolled choose to remain in the plan.

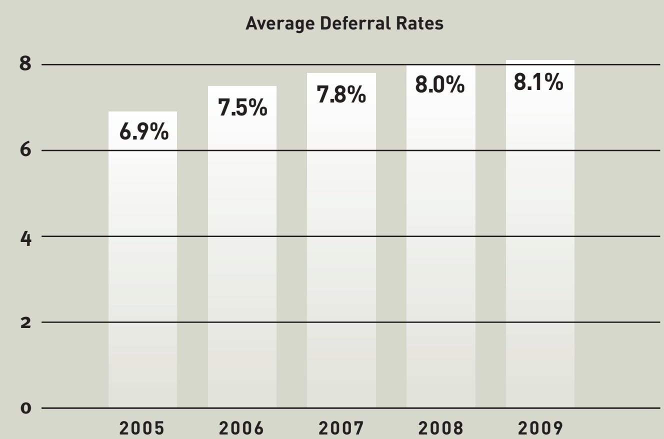
Of course, this must be balanced with corporate culture and cost. So in addition to automatic plan design, there are tactical plan design changes sponsors can employ to maximize retirement income outcomes such as limiting the number of loans made available to participants or restructuring the company match. Also, targeting specific groups of employees, like low savers and nonparticipants, with personalized messaging designed to elicit a single, specific action can be an effective way to move the dial.

PLAN FITNESS TIP:

If you feel that your plan might not be producing the appropriate amount of replacement income for your participants, consider automatic plan design.

CASE STUDY: IMPACT OF AUTO-INCREASE BALTIMORE LIFE INSURANCE COMPANY

The Baltimore Life Insurance Company, a client of T. Rowe Price, recently compiled data showing how the implementation of automatic plan design resulted in increased contribution levels. Over the course of four years, average contribution levels gradually increased from 6.9% to 8.1% after automatic plan design was introduced in 2005.



3 IS MY PLAN EASY TO OFFER AND EASY TO USE?

The third component of a healthy plan is simplicity. The plan should be both easy to offer and easy to use. According to Sage, this means removing any barriers to enabling action. In the past, making transactions in a plan required filling out forms and submitting paperwork. Today, it can be as easy as picking up the phone or going online. In addition to the plan being user friendly for participants, it should also be easy for plan sponsors to administer. This means determining if current plan provisions might be outdated or unnecessary.

"Sponsors should ask themselves how they can streamline the plan to avoid errors and challenges," says Sage. "Simple usually equals easier and cleaner."

PLAN FITNESS TIP:

If you feel that your plan is complicated to use or administer, consider automatic enrollment and streamlining plan provisions.

4 DOES MY PLAN HAVE PRUDENT OVERSIGHT?

Prudent oversight is another important component of a healthy plan as it relates directly to fiduciary responsibility. Sage suggests that plan sponsors ask themselves the following questions to determine if they are adequately meeting their fiduciary responsibilities.

- Is there a governance committee meeting regularly?
- Are the investments appropriate for the plan participants?
- Are the fiduciaries staying abreast of regulatory trends?
- Is the committee taking advantage of regulatory safe harbors?

Once you have considered these questions, the next step is to engage in actions that will help fiduciaries meet these key responsibilities. Again, Sage offers some basic steps a plan sponsor can consider taking:

1. Provide training to make sure fiduciaries understand their role.
2. Maintain, adhere to, and document an investment policy.
3. Follow the investment policy and regularly review investments and expenses.
4. Document decisions to show that the committee has taken logical steps to evaluate, and render, a decision.
5. Stay informed by attending conferences and Web seminars.

Staying on top of fiduciary responsibility can have a positive effect on how the plan is perceived, used, and administered—making prudent oversight the most important component of a successful plan.

PLAN FITNESS TIP:

If you feel that plan oversight is not a prudent as it could be, consider the key questions and take appropriate action to help fiduciaries meet their responsibilities.

PREVENTIVE CARE

Plan sponsors have a fiduciary responsibility to make sure that they are overseeing their plan correctly, that they are monitoring investments, and that participants are provided with the best opportunity for successful outcome. Negron feels that periodically reviewing these basic markers of a healthy plan, at least annually, can provide the preventive care needed to help your plan stay on track for success.

"These considerations offer something to work from," he says. "Tailor this information to your organization," he says. "If you haven't reviewed your plan design in a while, now is a great time."

For more information on resources available to assist plan sponsors with meeting their fiduciary responsibilities, visit the T. Rowe Price Plan Sponsor Resource Center Web site at rps.troweprice.com/sponsor. ■

Written by Julie Stromberg and Jerry Appelbaum

[1] Based on 401(k) clients that outsource deferrals to T. Rowe Price only. Represents 36.0% of all full-service Retirement Plan Services clients.

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